

PT. Sarimelati Kencana Tbk.

17 October 2019

Trade, Tourism Restaurant & Hotel

Price IDR 1,075

Target Price IDR 1,610

JKSE Index 6,169.592



Stock Information

Bloomberg Code	PZZA IJ
Market Cap (IDR bn)	3,248.5
52-week high (IDR)	1,300
52-week low (IDR)	800
Shares issued (mn)	3,021.9
6-m avg. daily Val (IDR)	1,055
Free float (%)	28.97%

Major share holders	(%)
PT. Sriboga Raturaya	64.79%
DBS Bank Ltd S/A Albizia Op.	6.01%
Public (below 5% each)	29.20%

USD/ IDR – YE (IDR)	
2018	14,390
2019F (6m-avg)	14,178

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Investment Consideration

BUY

Expanding Outlet

- PZZA has opened more outlets as the company has agreed with Yum! (the franchisor of Pizza Hut) to target an additional 175 new outlets during 2017 – 2019.
- If the target is achieved, PZZA is entitled to incentives from Yum! which will reduce franchise costs.

Increasing production capacity

- As the outlet expansion requires increased production and distribution capacity, PZZA plans to expand and upgrade their facilities.
- PZZA plans to triple the size of its sausage production factories. The new factory will have capacity of 3,150 tons/ year and is expected to start operating in 1Q 2020.
- PZZA also plans to expand its pasta facility and add a new frozen dough facility.

Double-digit growth and steady margin

- We are targeting PZZA to grow double-digits top and bottom line in 2019F with a good result expected in the second semester.
- As of 1H2019, PZZA recorded revenue growth of 12% YoY to IDR 1.94 trillion from 1.72 trillion in 1H2018. Gross profit also grew 12% YoY to IDR 1.3 trillion with a steady gross profit margin at 67.4% in 1H2019. Operating profit recorded a slight increase of 5% YoY to IDR 134 billion, and the operating margin remained at 7%. Net profit grew 22% YoY to IDR 100 billion, as the net margin increased to 5.2% from 4.8% in 1H2018.
- We are targeting PZZA to grow bottom line profit 21% in 2019F to IDR 210 billion with a steady margin at 5.2%.

Valuation: Buy TP 1,610, 49.7% Upside

- We are targeting PZZA to trade at 20x 2020F PE, which is IDR 1,610 per share or 49.7% potential upside within one year. We recommend to BUY

Financial Highlights	2016A	2017A	2018A	2019F	2020F
Revenue (IDR Bn)	2,695	3,027	3,574	4,018	4,590
Net Profit (IDR Bn)	130	141	173	210	239
EBITDA (IDR Bn)	304	329	389	417	477
OPM (%)	7.7%	7.4%	7.2%	7.0%	7.0%
NPM (%)	4.8%	4.7%	4.8%	5.2%	5.2%
ROE (%)	38.5%	38.2%	14.3%	16.4%	17.9%
Interest Coverage (x)	5.4	5.6	6.8	26.0	21.7
EPS (IDR)	2,268	167	57	69	79

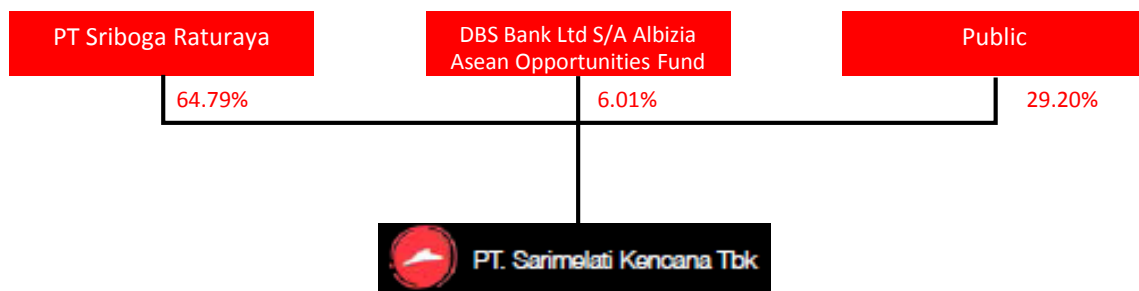
Company Profile

PT Sarimelati Kencana Tbk was established in 1987 and holds the Pizza Hut Indonesia franchise from Yum! Pizza Hut Asia. In 2004, Sriboga Group's PT Sriboga Raturaya acquired the company and in 2005 Sriboga had a rapid increase in the number of Pizza Hut Restaurants (PHR). In 2007, the company introduced the home-delivery pizza concept, called Pizza Hut Delivery (PHD). In 2018, the company introduced more innovations through its new brand Pizza hut Express (PHE).

As of 1H2019, the company has 484 outlets consisting of Pizza Hut Restaurants, Pizza Hut Delivery and Pizza Hut Express. 80% of the company outlets are currently located in Java & Bali Island.

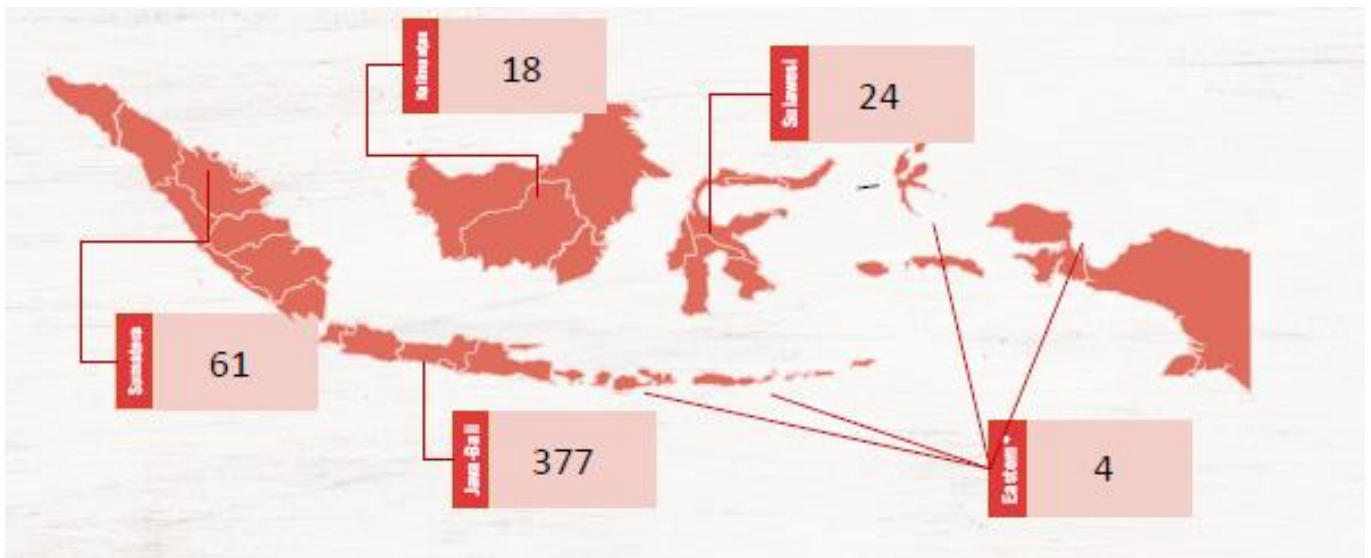
The company also operates a pasta factory in Jakarta, a sausage factory in West Java, and dough ball factories in West, Central, and East Java, Bali, South Sulawesi, North and South Sumatera and Riau.

Company Structure



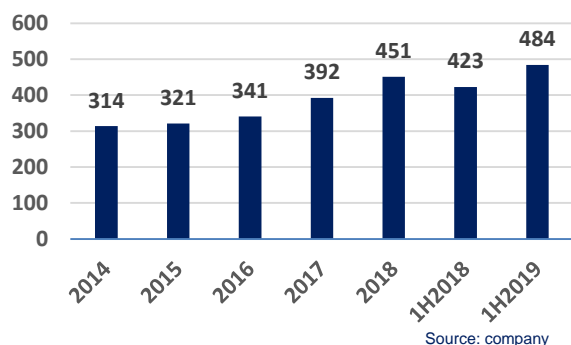
Source: company

Company Nationwide Presence



Source: company

Number of Stores (Unit) YoY



Number of Outlets (Unit)

Area	Actual		Future Outlet
	End of 2018	1H2018	2019
Greater Jakarta	205	12	
Java-Bali	153	7	
Sumatera	55	6	
Sulawesi	21	3	
Kalimantan	13	5	
Eastern Indonesia	4		
Total	451	33	50-65

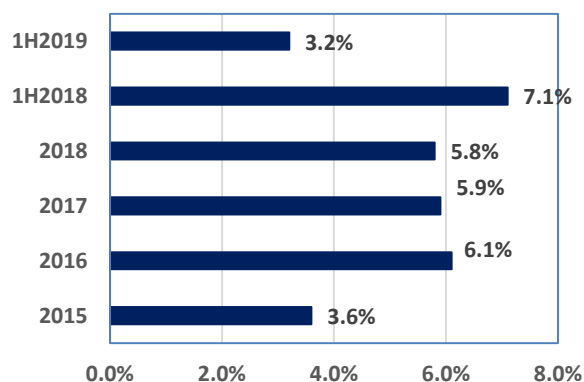
Source: company

SSSG vs Margin QoQ

	1Q2019	2Q2019	1H2018	1H2019
Blended SSSG	7.1%	3.1%	7.1%	3.2%
GPM	67.6%	67.2%	67.6%	67.4%
NPM	4.5%	5.8%	4.8%	5.2%

Source: company

Same Sales Growth (%) YoY



Adding Outlets

PZZA has agreed with Yum! (the franchisor of Pizza Hut) to add 175 new outlets during the period from 2017 – 2019. During 1H2019 PZZA added 33 new stores, now in total PZZA has 484 outlets from 516 outlets targeted for 2019. PZZA will entitle to certain fee reduction from Yum! and it will reduce franchise cost.

Increasing production capacity

PZZA plans to expand and upgrade facilities to support its expansion target. PZZA expects to triple the size of its sausage production factories. The new factory will have the capacity of 3,150 tons/ year and expected to start operation in 1st quarter of 2020. PZZA also is expanding pasta facilities and developing a new frozen dough facility. Currently, PZZA have pasta factory in Pulogadung, Jakarta with capacity of 756 ton / year, sausage factory in Bandung, West Java with capacity of 1,050 ton p/ year, 2 dough ball factories in Pulogadung, Jakarta and Bandung with total capacity of 6,380 ton / year, and 5 dough ball commissaries around Indonesia.

Double-digit growth and steady margin

We are targeting PZZA to grow double-digit top line and bottom line in 2019F. As of 1H2019, PZZA recorded revenue growth of 12% YoY to IDR 1.94 trillion from 1.72 trillion in 1H2018. Gross profit also grew 12% YoY to IDR 1.3 trillion with a steady gross profit margin around 67.4% in 1H2019. Operating profit recorded a slight increase of 5% YoY to IDR 134 billion, and the operating margin maintained at 7%. Net profit grew 22% YoY to IDR 100 billion, as the net margin increased to 5.2% from 4.8% in 1H2018. We are targeting PZZA to grow bottom line profit 21% in 2019F to IDR 210 billion with a steady margin at 5.2%.

Other Peers	Price	Market Cap	PE	EBITDA Margin	OPM	NPM	EV	EV/EBITDA	Dividend Yield
Domestic Peers									
PZZA	1,075	3.25T	17.62	11.12%	7.28%	4.90%	3.26T	7.74	2.66%
MAPB	1,735	3.77T	31.24	13.38%	6.08%	4.50%	3.48T	9.04	-
FAST	2,830	5.65T	21.15	8.95%	5.02%	4.16%	4.8T	8.47	1.13%
Regional Peers									
Yum China	612,122	230.67T	25.08	19.09%	10.43%	7.88%	250.43T	8.72	1.11%
Shakey's Pizza Asia	3,063	4.69T	20.29	18.96%	15.92%	11.10%	5.83T	14.25	0.90%
Jollibee Foods	64,059	70.06T	36.66	7.29%	3.67%	3.71%	72.36T	21.35	1.10%

Source: Bloomberg

Fintech Promotion boosted demand

Financial Technology promotions boosted impulsive consumer buying. Gojek with gopay, Dana, Grab with Ovo, Linkaja, and many more, increase Food & Beverage sectors sales. Fintech promotion contribute 6% of PHR and 30% of PHD revenue. Especially Gojek contributes between 10%-12% consolidated PZZA revenue.

Valuation: Buy TP 1,610, 49.7% Upside

PZZA has lower PE compared to other peers (domestic and regional). As we are expecting a double-digit growth and stable margin in 2019F, we are targeting PZZA to trade at 20x 2020F PE, which is around IDR 1,610 per share or 49% potential upside within one year. We recommend to BUY.

Table: Income Statement In IDR Billion YoY

Income Statement (IDR Bn)	2015A	2016A	2017A	2018A	2019F	2020F
Revenue	2,494	2,695	3,027	3,574	4,018	4,590
Cost of Revenues	(832)	(873)	(1,002)	(1,181)	(1,326)	(1,515)
Gross Profit	1,662	1,823	2,025	2,393	2,692	3,076
Operating Expenses	(1,539)	(1,616)	(1,803)	(2,135)	(2,411)	(2,754)
Operating Profit	122	207	223	258	281	321
Other Income (Expenses)	(39)	(31)	(33)	(25)	(4)	(5)
PBT	83	176	189	232	277	317
Tax	(22)	(46)	(48)	(59)	(68)	(77)
PAT	61	130	141	173	210	239
Non-controlling Interest	0	0	0	0	0	0
Net Profit	61	130	141	173	210	239
EPS	1,067	2,268	167	57	69	79
EBITDA	212	304	329	389	417	477

Table: Cash Flow In IDR Billion YoY

Cash Flow (In IDR Bn)	2016A	2017A	2018A	2019F	2020F
Net Income	130	141	173	210	239
Depreciation	95	106	123	129	145
Change in WC	79	(68)	(173)	29	25
Cash From Operating Activities	305	179	123	368	410
Capex	(175)	(331)	(358)	(303)	(326)
Cash From Investing Activities	(175)	(331)	(358)	(303)	(326)
Employee benefits liabilities	45	77	(15)	45	45
Long-term Bank loan	(59)	154	(161)	(14)	95
Others Noncurrent Liabilities	14	(6)	(7)	0	0
Equity	(79)	(110)	670	(147)	(177)
Cash From Financing Activities	(80)	115	487	(116)	(36)
Net Changes in Cash	50	(37)	253	(51)	48
Beginning Balance	63	113	75	328	278
Ending Balance	113	75	328	278	325

Table: Statement of Financial Position In USD. Million YoY

	2015A	2016A	2017A	2018A	2019F	2020F
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	63	113	75	328	278	325
Trade Accounts Receivable	20	17	18	17	19	22
Inventories	172	148	269	304	299	342
Others Current Assets	117	120	153	168	190	217
Total Current Assets	373	398	515	817	786	906
NONCURRENT ASSETS						
Fixed Assets	481	499	671	859	989	1,134
Prepaid Expenses	66	124	155	182	198	205
Other Noncurrent Assets	127	131	153	172	199	228
Total Noncurrent Assets	674	754	979	1,213	1,386	1,567
TOTAL ASSETS	1,046	1,152	1,494	2,030	2,172	2,473
LIABILITIES AND EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Short-term Bank Loans	212	195	201	80	59	90
Trade Account Payable	128	165	173	187	223	255
Others Current Liabilities	129	162	235	217	251	287
Total Current Liabilities	468	523	609	485	534	631
NONCURRENT LIABILITIES						
Employee benefits liability:	167	211	289	274	319	364
Long-term Bank loan	124	65	219	58	44	139
Others Noncurrent Liabilitie	0	14	7	1	1	1
Total Noncurrent Liabilities	291	290	515	333	364	504
TOTAL LIABILITIES	759	813	1,124	818	897	1,135
Non-controlling interest	0	0	0	0	0	0
EQUITY	287	339	370	1,213	1,275	1,338
TOTAL LIABILITIES & EQUITY	1,046	1,152	1,494	2,030	2,172	2,473

Table: Ratio Highlights YoY

Growth (% YoY)	2016A	2017A	2018A	2019F	2020F
Sales	8.1%	12.3%	18.1%	12.4%	14.2%
OP	69.3%	7.6%	15.7%	9.2%	14.2%
EBITDA	43.1%	8.4%	18.3%	7.2%	14.2%
NP	112.5%	8.4%	22.5%	21.1%	14.2%
EPS	112.5%	-92.6%	-65.7%	21.1%	14.2%
Profitability					
Gross Profit Margin (%)	67.6%	66.9%	67.0%	67.0%	67.0%
Operating Margin(%)	7.7%	7.4%	7.2%	7.0%	7.0%
EBITDA margin(%)	11.3%	10.9%	10.9%	10.4%	10.4%
NET Profit margin(%)	4.8%	4.7%	4.8%	5.2%	5.2%
ROA(%)	11.3%	9.5%	8.5%	9.6%	9.7%
ROE(%)	38.5%	38.2%	14.3%	16.4%	17.9%
Stability					
Tot. debt/ equity (x)	2.4	3.0	0.7	0.7	0.8
Int. Coverage (x)	5.4	5.6	6.8	26.0	21.7
Current Ratio (X)	0.8	0.8	1.7	1.5	1.4
Per Share data (IDR)					
EPS	2,268	167	57	69	79
BV	5,888	437	401	422	443
SPS	46,875	3,577	1,183	1,330	1,519
EBITDA/share	5,281	389	129	138	158

Stock Ratings:

Buy : a recommendation to purchase the security with upside potential of **20% or greater**

Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.

Sell : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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